June 21, 2024 (Revised)

VRC Constructions (India) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	44.00	44.00	[ICRA]A (Stable); reaffirmed
Long-term/ Short-term – Non-fund based – Bank guarantee	577.00	577.00	[ICRA]A (Stable)/ [ICRA]A2+; reaffirmed
Total	**621.00**	**621.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for VRC Constructions (India) Private Limited (VRC) favourably factors in its comfortable financial profile, supported by healthy operating margins (over 16%), moderate leverage (total outside liabilities to tangible net worth (consolidated TOL/TNW)[1] of 1.3) and comfortable coverage metrics (interest cover of ~9 times as on March 31, 2024). The ratings consider the extensive experience of the promoters in the construction segment and its established track record in executing refinery and road construction projects for a reputed clientele, consisting of public sector entities.

VRC witnessed a robust 33% year-on year (YoY) growth in its operating income (OI) to Rs. 1,921 crore and sustained operating profitability at ~17% in FY2024, driven by ramp-up in the pace of execution of the outstanding order book under engineering, procurement, and construction (EPC) and hybrid annuity model (HAM) projects. However, its order book (OB) declined to Rs. 2,177 crore as on March 31, 2024 (order book-to-OI of ~1.1 times based on OI of FY2024) and provides limited revenue visibility. The company's ability to successfully build-up its OB to sustain its scale of operations and profitability will be a key monitorable. The consolidated TOL/TNW stood at 1.3 times as on March 31, 2024 and is expected to improve gradually with healthy accretion to reserves. The working capital intensity (NWC/OI) is likely to sustain near the current levels.

The ratings are also constrained by the company's concentrated OB with the top five projects accounting for ~79%, and execution risks, given that ~56% of orders are in the early stages of execution (less than 20% progress). However, ICRA draws comfort from VRC's track record in the construction business and successful completion of projects within time and budget. ICRA has factored in the company's exposure to four HAM projects from the National Highways Authority of India {NHAI, rated [ICRA]AAA(Stable)}, which are being developed (one completed and three under execution as on March 31, 2024) in separate special purpose vehicles (SPVs) and remain exposed to project implementation risks. VRC has pending equity commitments of ~Rs. 100 crore in these projects (out of Rs. 520 crore) and the same is planned to be met from its available liquidity and cash flow from operations over FY2025-FY2026. Over the medium term, it plans to take up more BOT/HAM projects, which will entail additional equity commitments. Given the increasing scale of operations and equity commitments such projects entail, VRC's ability to judiciously manage its working capital cycle and maintain its execution ramp-up remain important from the credit perspective. The ratings note the stiff competition in the construction sector, which could put pressure on the new order inflows and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and mobilisation advance. Nonetheless, ICRA draws comfort from VRC's execution track record and absence of invocation of guarantees in the past.

[1] *Consolidated debt of VRC standalone, VRC DC Highways Private Limited, VRC Silos Private Limited and VRC Hotels Private Limited*

The Stable outlook on the long-term rating reflects ICRA's opinion that VRC will strengthen its order book and sustain its comfortable leverage and coverage metrics over the medium term. Further, the outlook underlines ICRA's expectation that its incremental capex and/or investments will be funded in a manner that it is able to durably maintain its debt protection metrics.

Key rating drivers and their description

Credit strengths

Experience of promoters in construction industry – VRC has a track record of over two decades in operations. Its promoters and key management have long experience in the construction business. Mr. Darshan Kumar Gupta (Managing Director) and Mr. Narinder Kumar Bansal (Director-Finance) have around five decades of experience in the construction sector. The second generation of promoters — Mr. Rajiv Kumar Gupta, Mr. Chander Shekhar Bansal, and Mr. Ajay Kumar Bansal — have also been associated with the company for more than a decade. This apart, it has a technical team of qualified and experienced professionals. VRC has seen repeat (and increasing) business from its clients, which reflects its strong execution capabilities.

Reputed clientele mitigates counterparty risks – VRC operates primarily in the road and refinery segments (including civil works), where roads contribute to approximately 70% and other refinery and civil-related works account for 30% of the order book. The outstanding OB includes road projects from the NHAI (rated [ICRA]AAA (Stable)) under EPC and HAM model and refinery projects from Indian Oil Corporation Limited (IOCL, rated [ICRA]AAA (Stable)/[ICRA]A1+). While over 90% of the pending OB is concentrated on these two clients, the risks are largely mitigated due to their strong credit profiles.

Comfortable leverage and coverage metrics – VRC witnessed a robust growth of ~33% in its consolidated OI in FY2024 to Rs. 1,921.1 crore, with operating profitability sustaining at around 17%, despite some YoY moderation. Its financial risk profile remains comfortable with a consolidated leverage (TOL/TNW) of 1.3 times as on March 31, 2024. In FY2024, the external debt increased to Rs. 645.8 crore as on March 31, 2024 (from Rs. 496.7 crore as on March 31, 2023). Nonetheless, the debt coverage indicators remained healthy with interest coverage of ~9 times in FY2024. The leverage and coverage metrices are expected to sustain at comfortable levels in FY2025, supported by healthy scale of operations and margins, moderate debt levels and stable working capital cycle.

Credit challenges

Moderate OB position providing limited revenue visibility; concentrated OB and exposed to execution risk – Due to muted fresh order addition over the trailing 15 months, VRC's outstanding OB position declined to Rs. 2,177 crore as on March 31, 2024 from Rs. 4,060 crore as on December 31 2022. The current OB is ~1.1 times of its OI in FY2024 providing limited revenue visibility. Majority of its OB comprises road construction orders from the NHAI, and accounts for 68% of the pending order book. The company's OB remains exposed to project concentration risks as the top five projects accounted for ~79% of the OB as on March 31, 2024. VRC also remains exposed to execution risks associated with the contracts as ~56% of orders are in the early stages of execution with less than 20% progress.

Exposure towards business in subsidiaries including HAM projects – The company had taken up four HAM projects from the NHAI, which are being undertaken in separate SPVs (one completed and three under construction as on March 31, 2024) and will be exposed to project implementation risks. VRC is required to make sizeable equity investments of ~Rs. 520 crore in these four SPVs. Of this, it had already invested ~Rs. 421 crore till March 2024, and the balance can be met from the available liquidity and cash flow from operations over FY2025-FY2026. Any significant addition of new BOT projects in the OB, leading to high equity commitments, could have a bearing on the liquidity. Hence, timely divestment of stake in completed BOT projects remains important. ICRA notes that its subsidiary—VRC Silos Private Limited {rated [ICRA]A(stable)} — is self-sufficient to service its debt obligations.

Risks associated with construction sector including sizeable non-fund-based exposure – VRC is exposed to the cyclicality inherent in the construction industry and intense competition in the tender-based contract award system, resulting in the risk of volatility in order inflows, revenues, and pressure on profit margins. However, its long presence and established relationships with clients, provide comfort. Most of the contracts have the provision for price variation of key raw materials such as cement and steel, which protects the profitability to an extent. It is exposed to sizeable contingent liabilities in the form of BGs (~Rs. 551 crore as on March 31, 2024), mainly towards performance guarantee, mobilisation advances and security deposits. Nonetheless, ICRA draws comfort from VRC's healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

VRC's liquidity is expected to remain adequate with healthy cash accruals, supported by a steady working capital cycle, free cash and bank balances (including FDs) of Rs. 27.0 crore, along with unutilised fund-based limits (~Rs. 37 crore as on March 31, 2024). It has pending equity commitments of ~Rs. 98 crore towards the under-construction HAM projects during FY2025-FY2026. In addition, it has debt repayment of Rs. 134 crore and capex plans of around Rs. 20 crore in FY2025. The estimated cash flows from operations and available liquidity is likely to be sufficient for meeting its financial obligations.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a sustained increase in the company's scale of operations while maintaining a healthy order book position and profitability margins, resulting in improvement in liquidity position and debt coverage metrics.

Negative factors – Pressure on the ratings could arise if weak order addition or any significant delays in project execution leads to a decline in its scale, operating profitability, or deterioration in its liquidity position. Further, larger-than-estimated investments in BOT or HAM projects or considerable time or cost overrun in its ongoing HAM project resulting in higher-than-envisaged support or substantial investment/advances to non-core businesses could also exert pressure on the ratings. The specific credit metrics that could lead to a rating downgrade include consolidated TOL/TNW increasing over 1.3 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction
Parent/Group support	Not Applicable
Consolidation/ Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VRC and its subsidiaries, associates (Refer Annexure II). ICRA has fully consolidated the HAM project SPV - VRC DC Highways Private Limited – for which VRC has extended corporate guarantee for entire tenure. For other HAM project SPVs, ICRA had considered limited consolidation factoring in the expected funding requirements (equity/ cost over-run support/ operational shortfall).

About the company

Incorporated in 1996, VRC Construction (India) Private Limited (VRC) undertakes all types of civil construction works. It has executed various projects for refinery and petrochemical, power, cement, steel, nuclear, and other infrastructure sectors. Over half a decade ago, the company diversified into road construction and has been increasing its exposure in the road sector since then. Major clients include the National Highway Authority of India (NHAI), Indian Oil Corporation Ltd. (IOC), Hindustan Petroleum Corporation Ltd (HPCL), other Maharatna/Navratna companies/leading industries like NTPC, NBCC, BHEL, B&R, DMRC, state governments, some other multi-national corporations (MNCs) as well as domestic clients like Rajiv Gandhi Cancer institute Research Centre (New Delhi), DPPL Group, etc.

In the road segment, the company initially secured orders under the EPC mode. However, over the last two years, it has undertaken four developmental projects under HAM, where three are under execution and the fourth one has recently become operational. VRC has also set up and is operating a silos facility in Barnala (Punjab) as per the contract with Food Corporation of India (FCI), which has been undertaken under its wholly-owned subsidiary - VRC Silos Private Limited.

Key financial indicators (audited)

VRC Consolidated	FY2023	FY2024*
Operating income	1,446.6	1,921.1
PAT	177.9	235.6
OPBDIT/OI	18.1%	16.8%
PAT/OI	12.3%	12.3%
Total outside liabilities/Tangible net worth (times)	1.5	1.3
Total debt/OPBDIT (times)	2.0	2.1
Interest coverage (times)	8.5	8.9

*Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
					Jun 21, 2024	-	Mar 24, 2023	Aug 29, 2022	May 13, 2022	Sep 23, 2021
1	Fund-based-Cash credit	Long-term	44.00	-	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Non-fund based – Bank guarantee	Long-term/ Short-term	577.00	-	[ICRA]A (Stable)/ [ICRA]A2+	-	[ICRA]A (Stable)/ [ICRA]A2+	-	-	-
3	Non-fund based – Bank guarantee	Short-term	-	-	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term/ Short-term – Non-fund based – Bank guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Cash credit	NA	NA	NA	44.00	[ICRA]A (Stable)
NA	Non-fund based – Bank guarantee	NA	NA	NA	577.00	[ICRA]A (Stable)/ [ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Company Name	VRC Ownership	Consolidation Approach
VRC Constructions (India) Private Limited	- (rated entity)	Full Consolidation
VRC Hotels Private limited	100.00%	Full Consolidation
VRC Silos Private Limited	100.00%	Full Consolidation
VRC DC Highways Private Limited	100.00%	Full Consolidation
Mata Brijeshwari Devi Infrastructure	74.00%	Limited Consolidation
VRC SR Highways Private Limited	100.00%	Limited Consolidation
VRC MB Highways Private Limited	100.00%	Limited Consolidation
VRC AC Highways Private Limited	100.00%	Limited Consolidation

Source: VRC; ICRA Research

Corrigendum:

Rationale dated June 21, 2024, has been revised with changes as below:

- In the rating history table on Page 5, long-term rating for the PR dated May 13, 2022 has been corrected to [ICRA]A (Stable) from [ICRA]A- (Stable).

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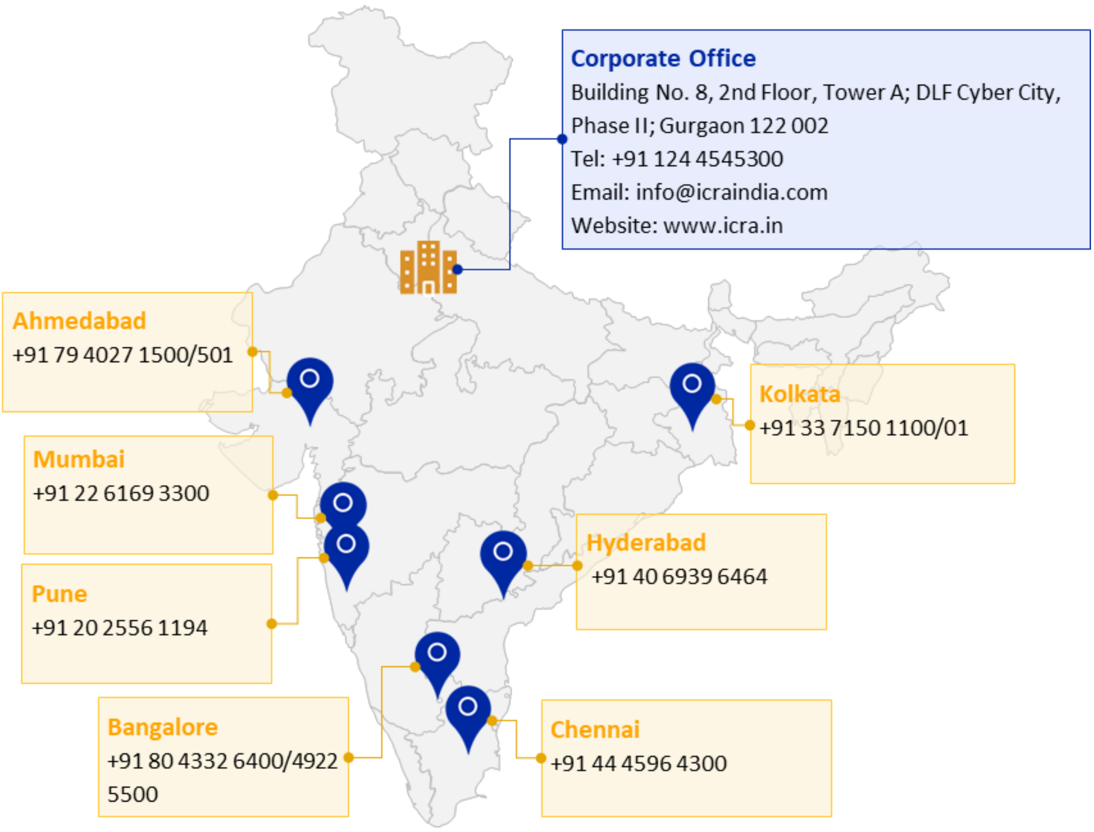

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